

**REPORT OF THE AUDIT OF THE  
FORMER HART COUNTY  
SHERIFF**

**For The Period  
January 1, 2005 Through September 30, 2005**



**CRIT LUALLEN  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE FORMER HART COUNTY SHERIFF**

**For The Period  
January 1, 2005 Through September 30, 2005**

The Auditor of Public Accounts has completed the former Hart County Sheriff's audit for the period January 1, 2005 through September 30, 2005. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees decreased by \$123,092 from the prior year, resulting in excess fees of \$176,674 as of September 30, 2005. This decrease is due to the former Sheriff resigning from office September 30, 2005. The former Sheriff has remitted \$176,674 to the fiscal court.

#### **Report Comments:**

- The Former Hart County Sheriff, Jeff Staples, Should Remit \$800 To The Drug Fund
- The Former Hart County Sheriff, Jeff Staples, Should Have Deposited Funds Intact On A Daily Basis
- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

#### **Deposits:**

The former Sheriff's deposits were uninsured and uncollateralized by bank securities.



## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS .....	3
NOTES TO FINANCIAL STATEMENT .....	5
COMMENTS AND RECOMMENDATIONS .....	11
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	15





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Daryl Martin, Hart County Judge/Executive  
Honorable Jeff Staples, Former Hart County Sheriff  
Members of the Hart County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees – regulatory basis of the former Sheriff of Hart County, Kentucky, for the period January 1, 2005 through September 30, 2005. This financial statement is the responsibility of the former Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former Sheriff for the period January 1, 2005 through September 30, 2005, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated December 21, 2005, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Daryl Martin, Hart County Judge/Executive  
Honorable Jeff Staples, Former Hart County Sheriff  
Members of the Hart County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former Hart County Sheriff, Jeff Staples, Should Remit \$800 To The Drug Fund
- The Former Hart County Sheriff, Jeff Staples, Should Have Deposited Funds Intact On A Daily Basis
- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

This report is intended solely for the information and use of the former Sheriff and Fiscal Court of Hart County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
December 21, 2005



HART COUNTY  
JEFF STAPLES, FORMER SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Period January 1, 2005 Through September 30, 2005

Revenues

Federal - Enhanced Law Enforcement Services for Nolan River Lake	\$	12,870	
State - Kentucky Law Enforcement Foundation Program Fund			8,289
State Fees For Services:			
Finance and Administration Cabinet	\$	17,907	
Sheriff Security Service		16,392	
House Bill 413 - Court Cost Fees		<u>2,916</u>	37,215
Circuit Court Clerk:			
Fines and Fees Collected			2,545
County Clerk - Delinquent Taxes			1,440
Commission On Taxes Collected			54,705
Fees Collected For Services:			
Auto Inspections	\$	2,010	
Accident and Police Reports		95	
Serving Papers		11,565	
Carrying Concealed Deadly Weapon Permits		6,495	
Transporting Prisoners		<u>2,886</u>	23,051
Other:			
Ten Percent Add On Fees	\$	31,383	
Advertising Costs		1,080	
Advertising Fees		2,900	
Miscellaneous		<u>620</u>	35,983
Interest Earned			<u>589</u>
Total Revenues	\$		176,687

The accompanying notes are an integral part of this financial statement.

HART COUNTY  
 JEFF STAPLES, FORMER SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Period January 1, 2005 Through September 30, 2005  
 (Continued)

Expenditures

Operating Expenditures:

Bank Charges		\$	<u>13</u>
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Total Expenditures		\$	<u>13</u>
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Net Revenues		\$	176,674
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Payments to Fiscal Court:

Monthly	\$	166,140	
December 13, 2005		<u>7,498</u>	<u>173,638</u>

Balance Due Fiscal Court at Completion of Audit		\$	<u><u>3,036</u></u>
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The former Sheriff, Jeff Staples, received salary payments of \$48,364 directly from the Hart County Fiscal Court for this time period.

HART COUNTY  
NOTES TO FINANCIAL STATEMENT

September 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at September 30 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for January 1, 2005 through September 30, 2005 services
- Reimbursements for January 1, 2005 through September 30, 2005 activities
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in January 1, 2005 through September 30, 2005

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

HART COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 September 30, 2005  
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last three months of the period.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Collateral Insufficient To Secure Deposits of Public Funds:

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposits at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial risk but rather follows the requirements of KRS 41.240(4). As of September 30, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of January 5, 2005, \$24,975 of public funds were exposed to custodial credit risk as follows:

- Uninsured and Unsecured                      \$24,975

HART COUNTY  
NOTES TO FINANCIAL STATEMENT  
September 30, 2005  
(Continued)

Note 4. Drug Fund

The Hart County Sheriff's office established a Drug Fund with funds received as the result of a drug investigation. These funds are to be used for drug enforcement and drug education. The Drug Fund had a balance of \$416 as of January 1, 2005. During the period of the audit, receipts totaled \$4,410 and expenditures totaled \$3,436 resulting in an ending balance of \$1,390 as of September 30, 2005. A payment of \$1,390 was made to the current Sheriff, October 4, 2005 to clear out the funds in the bank account for the Drug Fund.

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## COMMENTS AND RECOMMENDATIONS





HART COUNTY  
JEFF STAPLES, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period January 1, 2005 Through September 30, 2005

STATE LAWS AND REGULATIONS:

The Former Hart County Sheriff, Jeff Staples, Should Remit \$800 To The Drug Fund

The Hart County Sheriff's office established a Drug Fund with funds received as the result of a drug investigation. These funds are to be used for drug enforcement and drug education. The Drug Fund had a balance of \$416 as of January 1, 2005. During the period of the audit, receipts totaled \$4,410 and expenditures totaled \$3,436 resulting in an ending balance of \$1,390 as of September 30, 2005. There was no documentation submitted to auditors to support \$3,050 of checks written for cash.

A payment of \$1,390 was made to the current Sheriff, October 4, 2005 to clear out the former Sheriff's bank account for the Drug Fund.

During the exit conference, held December 21, 2005, the former Sheriff, Jeff Staples, stated to our staff that he took \$800 from the expenditures noted above (\$3,436) and placed these funds in a safety deposit box. Therefore, \$800 is due to the current Sheriff's office to be deposited in its Drug Fund.

The former Sheriff tried to remit \$800 to the current Sheriff after December 21, 2005, but the current Sheriff would not accept the funds. This is being investigated by the Kentucky State Police.

*Former Sheriff's Response:*

*None.*

The Former Hart County Sheriff, Jeff Staples, Should Have Deposited Funds Intact On A Daily Basis

KRS 68.210 states that the State Local Finance Officer "shall prescribe and shall install, by July 1, 1985, a system of uniform accounts for all counties and county officials." The Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual under Handling Public Funds, states a minimum requirement of "Daily deposits intact into a federally insured banking institution." There were no deposits made in January 2005 and only two made in February 2005. These funds should have been deposited on a daily basis.

*Former Sheriff's Response:*

*None.*

HART COUNTY  
JEFF STAPLES, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period January 1, 2005 Through September 30, 2005  
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

The former Sheriff's Office had a lack of segregation of duties. Due the entity's diversity of operations, small size and budget restrictions, the official had limited options for establishing an adequate segregation of duties. The following compensating controls could have been implemented to offset this internal control weakness:

- The former Sheriff should have periodically compared a daily bank deposit to the daily checkout sheet and then compared the daily checkout sheet to the receipts ledger. Any differences should have been reconciled. He should have documented this by initialing the bank deposit, daily checkout sheet and receipts ledger.
- The former Sheriff should have compared the quarterly financial report to the receipts and disbursements ledgers for accuracy. Any differences should have been reconciled. The former Sheriff should have documented this by initialing the quarterly financial report.
- The former Sheriff should have periodically compared invoices to payments. The former Sheriff should have documented this by initialing the invoices.
- The former Sheriff should have periodically compared bank reconciliations to the bank balance in the checkbook. Any differences should have been reconciled. The former Sheriff should have documented this by initialing the bank reconciliation and the bank balance in the checkbook.

*Former Sheriff's Response:*

*None.*

PRIOR YEAR:

The prior year audit report contained the following comments and recommendations, which have not been corrected:

- The Sheriff Should Deposit Funds Intact On A Daily Basis
- The Sheriff's Office Lacks Adequate Segregation Of Duties

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Daryl Martin, Hart County Judge/Executive  
Honorable Jeff Staples, Former Hart County Sheriff  
Members of the Hart County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Hart County Sheriff for the period January 1, 2005 through September 30, 2005, and have issued our report thereon dated December 21, 2005. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Hart County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Hart County Sheriff's financial statement for the period January 1, 2005 through September 30, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Former Hart County Sheriff, Jeff Staples, Should Remit \$800 To The Drug Fund
- The Former Hart County Sheriff, Jeff Staples, Should Have Deposited Funds Intact On A Daily Basis

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
December 21, 2005

